NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

d) LEASES

The Company has entered into both capital and operating leases for facilities and equipment used in the Company's operations. In 1991 and 1989, the Company incurred initial capital lease obligations of $20.3 million, and $2.0 million, respectively. In 1990, the Company incurred no initial capital lease obligations.

Total rent expense amounted to $50.7 million in 1991, $42.9 million in 1990, and $44.7 million in 1989.

At December 31, 1991, the approximate aggregate minimum rental commitments under non-cancelable leases for the periods shown are as follows:

	Dollars in Millions	
Years	Capital Leases	Operating Leases
1992	$ 17.0	$ 5.8
1993	16.3	4.0
1994	9.1	2.0
1995	9.0	1.5
1996	9.0	.7
Thereafter	50.1	1.6
Total	110.5	$15.6
Less imputed interest and executory costs	44.4	
Present value of net minimum lease payments	66.1	
Less current installments	9.5	
Long-term obligation at December 31, 1991	$ 56.6	

e) INCOME TAXES

The components of operating income tax expense are as follows:

	Dollars in Millions Years Ended December 31,		
	1991	1990	1989
Federal:			
Current	$233.4	$200.2	$189.5
Deferred, net	(32.9)	(16.8)	(11.5)
Investment tax credits	(18.3)	(18.8)	(22.2)
	$182.2	$164.6	$155.8

Income tax expense which relates to non-operating income and expense and are included in Miscellaneous-net was $1.6 million, $2.2 million, and $.9 million in 1991, 1990, and 1989, respectively. The deferred tax benefit related to the cumulative effect of the change in accounting principle was $241.7 million in 1991.

The components of deferred income tax benefit are as follows:

	Dollars in Millions Years Ended December 31,		
	1991	1990	1989
Accelerated depreciation	$(10.6)	$ (4.0)	$ (1.9)
Employee benefits	(10.5)	(11.3)	(2.3)
Other, net	(11.8)	(1.5)	(7.3)
Total	$(32.9)	$(16.8)	$(11.5)

The provision for income taxes varies from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes and cumulative effect of change in accounting principle. The difference is attributable to the following factors:

	Years Ended December 31,		
	1991	1990	1989
Statutory federal income tax rate	34.0%	34.0%	34.0%
Investment tax credits	(2.9)	(3.2)	(4.1)
Benefit of rate differential applied to reversing timing differences	(3.3)	(3.8)	(3.7)
Reversal of previously capitalized taxes and payroll-related construction costs	1.3	1.9	3.1
Other, net	1.0	(1.3)	(.3)
Effective income tax rate before cumulative effect of change in accounting principle	30.1%	27.6%	29.0%

e) INCOME TAXES (Continued)

As a result of the adoption, effective January 1, 1988, of the revised USOA prescribed by the FCC, deferred taxes must be provided for interstate ratemaking purposes on all future book/tax timing differences. Prior to 1988, the Company did not record deferred taxes on timing differences for which deferred tax expense was not allowed for ratemaking purposes.

The cumulative net amount of income tax timing differences for which deferred taxes have not been provided pursuant to the ratemaking process was approximately $177.5 million and $201.0 million at December 31, 1991 and 1990, respectively. These timing differences principally relate to the allowance for funds used during construction and certain taxes and payroll-related construction costs which were capitalized for financial statement purposes, but were deducted currently for income tax purposes, net of applicable depreciation.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109), in February 1992. The Company will be required to adopt Statement No. 109 by 1993. Statement No. 109 will require the calculation of deferred taxes using the liability method. Under the liability method, deferred tax balances must be adjusted to reflect enacted changes in income tax rates, and deferred taxes must be provided on all book/tax basis differences.

Presently, deferred taxes are recorded at income tax rates that were in effect at the time the related timing difference arose. In addition, regulated companies only record deferred taxes on timing differences which regulators recognize in the ratemaking process. Since regulators have not changed the manner in which these tax effects are treated for ratemaking purposes, when Statement No. 109 is adopted, the income effects of the required adjustments to deferred tax balances will be recorded on the balance sheet as regulatory assets or liabilities in accordance with Statement of Financial Accounting Standards No.71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71). Absent changes in the regulatory treatment of deferred taxes, there will be no material impact on net income upon adoption of Statement No. 109.

Prior to 1984, the Company was included in AT&T's consolidated federal income tax returns. These returns have been examined by the Internal Revenue Service (IRS), and all issues, including the summary assessment issue discussed below, have been settled.

During 1987, the IRS made a summary assessment requiring Bell Atlantic's telephone subsidiaries to pay a total of approximately $65.0 million in tax and interest related to certain contested issues for the years 1979 and 1980. This payment ($15.6 million of which was the Company's share) has been recorded as a current deferred charge. In January 1992, the Company was officially notified that the IRS has decided the issues as proposed by Bell Atlantic, and a refund of the summary assessment is expected in 1992.

NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

f) EMPLOYEE BENEFITS

Pension Plans

Substantially all of the Company's management and associate employees are covered under noncontributory multiemployer pension and death benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The pension benefit formula is based on a flat dollar amount per year of service according to job classification under the associate plan and a stated percentage of adjusted career average income under the plans for management employees. The Company's objective in funding the plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, U.S. Government and corporate debt securities, and real estate.

Aggregate pension costs for the plans are as follows:

	Dollars in Millions		
	Years Ended December 31,		
	1991	1990	1989
Current year cost	$30.4	$31.4	$35.6
Percentage of salaries and wages	4.2%	4.3%	4.5%

During 1991, the Company offered a retirement incentive program to eligible management employees electing early retirement. The decrease in pension cost from 1990 to 1991 is a net result of changes in plan provisions, actuarial assumptions and demographic and investment experience, offset by the special termination benefits of $1.9 million attributable to employees retiring in 1991 under this program.

The decrease in pension cost from 1989 to 1990 was primarily due to the adjustment of actuarial assumptions, offset partially by plan amendments.

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (Statement No. 87), requires a comparison of the actuarial present value of projected benefit obligations with the fair value of plan assets, the disclosure of the components of net periodic pension costs and a reconciliation of the funded status of the plans with amounts recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the projected benefit obligation was 7.75% at December 31, 1991 and 8.0% at December 31, 1990. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991 and 1990. The expected long-term rate of return on plan assets used to calculate pension cost was 7.5% for 1991, 1990, and 1989.

f) EMPLOYEE BENEFITS (Continued)

Pension Plans (Continued)

In the past, the Company has entered into labor negotiations with the unions representing certain employees and expects to do so in the future. Pension benefits have been included in these negotiations and improvements in benefits have been made from time to time. Additionally, the Company has amended the benefit formula under pension plans maintained for its management employees. Expectations with respect to future amendments to the Company's pension plans have been reflected in determining the Company's pension cost under Statement No. 87.

Postretirement Benefits Other Than Pensions

Effective January 1, 1991, the Company has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date the employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Company has elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized accrued postretirement benefit cost (transition obligation) in the amount of $469.1 million net of deferred tax benefit of $241.7 million. On December 26, 1991, the FCC released an order permitting adoption of Statement No. 106 on or before January 1, 1993. The FCC order permits amortization of the transition obligation over the average remaining service period of active employees for interstate regulatory accounting purposes. Pursuant to Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain types of Regulation" (Statement No. 71), a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

Substantially all of the Company's management and associate employees are covered under postretirement health and life insurance benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

f) EMPLOYEE BENEFITS (Continued)

The Company funds for postretirement health benefits for associate employees and postretirement life insurance benefits for associate and management employees. The Company's objective in funding these plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, and U.S. Government and corporate debt securities.

In 1991, the aggregate cost of postretirement health and life insurance benefits was $61.3 million.

Statement No. 106 requires a comparison of the actuarial present value of the accumulated postretirement benefit obligation with the fair value of plan assets, the disclosure of the components of the net periodic postretirement benefit cost, and a reconciliation of the funded status of the plans with the amount recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.75% at December 31, 1991 and 8.0% at January 1, 1991. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991. The expected long-term rate of return on plan assets was 7.50% for 1991. The medical cost trend rate in 1991 was approximately 15.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1991 and thereafter is approximately 4.0%.

Certain postretirement benefits other than pensions have been included in labor negotiations described above, and such benefits have been modified from time to time. Additionally, the Company has amended the benefits under postretirement benefit plans maintained for its management employees. Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under Statement No. 106.

During 1990 and 1989, the cost of postretirement health care benefits was $49.2 million and $60.3 million, respectively. In addition, the Company recognized postretirement life insurance benefit cost for 1990 and 1989 in the amounts of $.8 million and $2.6 million, respectively.

NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

g) SUPPLEMENTAL CASH FLOW AND ADDITIONAL FINANCIAL INFORMATION

	Dollars in Millions		
	1991	1990	1989
Supplemental cash flow information:			
Interest paid	$119.1	$114.5	$111.6
Income taxes paid	$196.6	$217.1	$186.4
Depreciation as a percentage of average depreciable plant	6.3%	7.7%	7.8%
Other operating taxes:			
Property	$100.4	$ 98.2	$ 96.0
Gross receipts	74.7	72.3	72.2
Other	.9	.8	.7
Total	$176.0	$171.3	$168.9
Interest expense:			
Interest on long-term debt	$113.0	$110.2	$100.8
Interest on note payable to affiliate	8.4	6.4	6.1
Interest on other notes payable	-	-	6.2
Other	6.5	.1	11.9
Total	$127.9	$116.7	$125.0

For the years ended December 31, 1991, 1990, and 1989, revenues generated from services provided to AT&T, principally network access, billing and collection and sharing of network facilities, comprised approximately 15%, 17%, and 18%, respectively, of total operating revenues.

The Company provides certain billing and collection services to interexchange carriers (IXCs). To provide these services, the Company and the IXCs enter into contracts under which the Company purchases the related customer accounts receivable. The largest purchaser of this service is AT&T. At December 31, 1991 and 1990, accounts receivable included $57.3 million and $89.5 million, respectively (net of allowances for uncollectibles of $15.4 million and $4.9 million) of such receivables purchased from AT&T. Accounts payable include corresponding amounts owed to AT&T for such receivables.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade receivables with AT&T, as noted above. Credit risk with respect to other trade receivables is limited due to the large number of customers included in the Company's customer base.

The amounts of drafts outstanding at December 31, 1991 and 1990 which were included in accounts payable were $61.3 million and $46.7 million, respectively.

At December 31, 1991, $37.2 million of negative cash balances were classified as accounts payable.

NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

h) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(DOLLARS IN MILLIONS)

Quarter	Total Operating Revenues	Net Operating Revenues	Income Before Cumulative Effect of Change in Accounting Principle	Net Income (Loss)
1991				
1st	$ 757.9	$187.8	$110.6	$(358.5)
2nd	783.3	195.7	117.0	117.0
3rd	771.9	162.4	92.6	92.6
4th	785.5	193.3	107.3	107.3
Total	$3,098.6	$739.2	$427.5	$ (41.6)
1990				
1st	$ 780.3	$188.7	$113.5	$113.5
2nd	777.3	180.2	105.1	105.1
3rd	769.5	177.7	111.7	111.7
4th	763.8	159.6	95.6	95.6
Total	$3,090.9	$706.2	$425.9	$425.9

Results of operations for the first three quarters of 1991 have been restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Note f). As a result of the restatement, net operating revenues decreased $3.9 million, $3.9 million, and $4.0 million, and income before cumulative effect of change in accounting principle decreased $2.6 million, $2.6 million, and $2.6 million, for the quarters ended March 31, June 30, and September 30, respectively.

NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

i) LITIGATION AND CONTINGENCIES

The Company is a party to antitrust actions and various other claims, legal actions, and complaints arising in the ordinary course of business.

In the opinion of management, any monetary liability or financial impact to which the Company might be subject after final adjudication or settlement of these matters would not be material to the Company's financial position.

NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

j) REGULATORY MATTERS

In June 1987, the New Jersey Board of Regulatory Commissioners (BRC) formerly the Board of Public Utilities (BPU), issued an Order approving a Rate Stability Plan (RSP) that modified the way the BRC monitors the Company's intrastate earnings. The RSP also capped intrastate tariffed rates for the six year duration of the plan (July 1, 1987 through June 30, 1993), subject, however, to certain exceptions which would permit the Company to seek tariffed rate increases during the fourth through sixth years of the plan.

Under the RSP, the Company agreed not to seek increases in tariffed rates for a period of at least three and as long as six years, in return for BRC acceptance of changes to its financial performance monitoring procedures. The RSP separates the Company's intrastate services into two categories, Group I (competitive) and Group II (all other). Only the Group II services are subject to financial performance monitoring by the BRC for the purpose of determining whether or not the Company is earning the target rate of return for those services. On January 19, 1989, the BRC issued an Order which established a target rate of return on equity of 12.9% for the purpose of monitoring the financial performance of the Group II category of services. While the financial performance of the Group II category of services continues to be monitored against that target level, the Group I services are allowed to earn according to the market, without restriction.

New regulatory reform legislation became effective in January 1992. The legislation enables the BRC to adopt alternative regulatory frameworks that provide incentives to telecommunications companies for aggressive deployment of new technology. The legislation also deregulates services which the BRC has found to be competitive.

NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

k) TRANSACTIONS WITH AFFILIATES

The Company has contractual arrangements with an affiliated company, Bell Atlantic Network Services, Inc. (NSI), for the provision of various centralized corporate, administrative, planning, financial and other services. These arrangements serve to fulfill the common needs of Bell Atlantic's operating telephone companies on a centralized basis rather than duplicate efforts in each company. In connection with these services, the Company recognized approximately $479.0 million, $438.0 million, and $358.0 million in operating costs for the years ended December 31, 1991, 1990, and 1989, respectively. In 1991, these charges included $12.7 million, associated with NSI's adoption of Statement No. 106. In addition, the Company recognized $128.0 million, representing the Company's proportionate share of NSI's accrued transition obligation under Statement No. 106. Included in these costs were $46.2 million in 1991, $40.4 million in 1990, and $38.8 million in 1989 billed to NSI and allocated to the Company by Bell Communications Research, Inc., another affiliated company owned jointly by the seven regional holding companies.

The Company has a contractual agreement with another affiliated company, Bell Atlantic Network Funding Corporation (BANFC), for the provision of short-term financing and cash management services. BANFC issues commercial paper and secures bank loans to fund the working capital requirements of the operating telephone companies and NSI, and invests funds in temporary investments on their behalf. In connection with this arrangement, the Company recognized $8.4 million and $6.4 million in 1991 and 1990, respectively, in interest expense.

The Company received $37.9 million in rent revenue from and paid $2.9 million in rent expense to affiliated companies as a result of various intercompany billing arrangements in 1991. These amounts were $19.9 million and $1.3 million in 1990, and $8.8 million and $1.8 million in 1989.

On January 30, 1992, the Company declared a dividend in the amount of $84.8 million which was paid to Bell Atlantic on January 31, 1992.

NEW JERSEY BELL TELEPHONE COMPANY

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1991

(Dollars in Millions)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note (a)	Retirements -Note (b)	Other changes	Balance at End of Period
Land	$ 42.2	$ 1.1	$ -	$ (.2)	$ 43.1
Buildings	551.3	18.0	1.8	(1.0)	566.5
Central Office Equipment	2,872.7	236.2	158.8	-	2,950.1
Telephone Instruments and Related Equipment	177.3	17.1	56.9	-	137.5
Pole Lines	151.6	6.4	6.1	-	151.9
Cable and Wiring	2,898.2	158.4	83.6	-	2,973.0
Conduit	553.2	27.8	.5	-	580.5
Office Equipment and Furniture	434.8	73.0	17.3	-	490.5
Vehicles and Other Work Equipment	189.8	41.1	12.1	-	218.8
Other	107.7	24.5	3.2	-	129.0
Total in Service (c)	7,978.8	603.6	340.3	(1.2)	8,240.9
Plant Under Construction	114.8	22.7	-	-	137.5
Other	9.3	4.0	-	-	13.3
Total Plant, Property and Equipment	$8,102.9	$630.3	$340.3	$ (1.2)	$8,391.7

The notes on page F-29 are an integral part of this Schedule.

NEW JERSEY BELL TELEPHONE COMPANY

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1990

(Dollars in Millions)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note (a)	Retirements -Note (b)	Other changes	Balance at End of Period
Land	$ 35.6	$ 6.6	$ -	$ -	$ 42.2
Buildings	526.6	30.5	5.8	-	551.3
Central Office Equipment	2,761.2	263.9	152.4	-	2,872.7
Telephone Instruments and Related Equipment	199.2	24.1	46.0	-	177.3
Pole Lines	148.3	5.7	2.4	-	151.6
Cable and Wiring	2,771.3	157.4	30.5	-	2,898.2
Conduit	525.1	28.7	.6	-	553.2
Office Equipment and Furniture	397.0	75.2	29.7	(7.7)	434.8
Vehicles and Other Work Equipment	162.7	34.4	7.3	-	189.8
Other	106.4	3.8	2.5	-	107.7
Total in Service (c)	7,633.4	630.3	277.2	(7.7)	7,978.8
Plant Under Construction	111.9	3.1	0.2	-	114.8
Other	9.2	.1	-	-	9.3
Total Plant, Property and Equipment	$7,754.5	$633.5	$277.4	$(7.7)	$8,102.9

The notes on page F-29 are an integral part of this Schedule.

NEW JERSEY BELL TELEPHONE COMPANY

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1989

(Dollars in Millions)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note (a)	Retirements -Note (b)	Other changes	Balance at End of Period
Land	$ 34.4	$ 1.2	$ -	-	$ 35.6
Buildings	509.4	18.8	1.6	-	526.6
Central Office Equipment	2,612.8	286.3	137.9	-	2,761.2
Telephone Instruments and Related Equipment	186.4	22.0	9.2	-	199.2
Pole Lines	144.1	6.1	1.9	-	148.3
Cable and Wiring	2,653.2	136.6	18.5	-	2,771.3
Conduit	497.5	27.7	.1	-	525.1
Office Equipment and Furniture	352.6	67.0	22.6	-	397.0
Vehicles and Other Work Equipment	144.1	28.0	9.4	-	162.7
Other	114.2	2.0	9.8	-	106.4
Total in Service (c)	7,248.7	595.7	211.0	-	7,633.4
Plant Under Construction	95.1	17.0	.2	-	111.9
Other	9.8	(.7)	(.1)	-	9.2
Total Plant, Property and Equipment	$7,353.6	$612.0	$211.1	-	$7,754.5

The notes on page F-29 are an integral part of this Schedule.

NEW JERSEY BELL TELEPHONE COMPANY

NOTES TO SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

(a) These additions include (1) the original cost (estimated if not specifically determinable) of reused material, which is concurrently credited to material and supplies, and (2) allowance for funds used during construction. Transfers between Plant in Service, Plant Under Construction, and Other are also included in Column C.

(b) Items of plant, property and equipment are deducted from the property accounts when retired or sold at the amounts at which they are included therein, estimated if not specifically determinable.

(c) The Company's provision for depreciation is principally based on the remaining life method and straight-line composite rates prescribed by regulatory authorities. The remaining life method provides for the full recovery of the remaining net investment in plant, property and equipment. In 1991, the Company implemented changes in depreciation rates approved by the FCC. These changes reflect reductions in estimated service lives of the Company's plant, property and equipment in service. This ruling will allow a more rapid recovery of the Company's investment in plant, property and equipment through closer alignment with current estimates of its remaining economic useful life. For the years 1991, 1990, and 1989 depreciation expressed as a percentage of average depreciable plant was 6.3%, 7.7%, and 7.8% respectively.

NEW JERSEY BELL TELEPHONE COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION

FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989

(Dollars in Millions)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions Charged to Expenses	Retirements	Other Changes - Note (a)	Balance at End of Period
Year 1991	$3,238.3	$506.0	$340.3	$(11.6)*	$3,392.4
Year 1990	$2,926.6	$582.3	$278.9	$ 8.3*	$3,238.3
Year 1989	$2,583.3	$557.6	$208.4	$ (5.9)	$2,926.6

(a) Includes any gains or losses on disposition of plant, property and equipment. These gains and losses are amortized to depreciation expense over the remaining service lives of remaining net investment in plant, property and equipment.

* Other changes consist primarily of salvage and cost of removal amounts related to the retirement of plant assets.

NEW JERSEY BELL TELEPHONE COMPANY

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989

(Dollars in Millions)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expenses	Charged to Other Accounts - Note (a)	Deductions - Note (b)	Balance at End of Period
Allowance for Uncollectible Accounts:					
Year 1991	$24.5	$31.0	$40.7	$59.1	$37.1
Year 1990	$17.8	$28.4	$23.9	$45.6	$24.5
Year 1989	$16.2	$18.9	$16.5	$33.8	$17.8

(a) (i) Includes amounts previously written off which were credited directly to this account when recovered; and (ii) accruals charged to accounts payable for anticipated uncollectible charges on purchases of accounts receivable from others which were billed by the Company.

(b) Amounts written off as uncollectible.

NEW JERSEY BELL TELEPHONE COMPANY

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989

(Dollars in Millions)

Col. A	Col. B
Item	Charged to Costs and Expenses
Year 1991	
Maintenance and repairs	\$525.4
Advertising costs	\$ 33.1
Year 1990	
Maintenance and repairs	\$527.1
Advertising costs	\$ 37.6
Year 1989	
Maintenance and repairs	\$511.3
Advertising costs	\$ 33.3

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1991

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-6875

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND

A Maryland Corporation I.R.S. Employer Identification No. 52-0270070

One East Pratt Street, Baltimore, Maryland 21202

Telephone Number (301) 539-9900

Securities registered pursuant to Section 12(b) of the Act: (see attached schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELL ATLANTIC CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

The Chesapeake and Potomac
Telephone Company of Maryland

Schedule A

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Forty Year 7 1/4% Debentures, due February 1, 2012	New York Stock Exchange
Thirty-Five Year 8 7/8% Debentures, due June 1, 2009	New York Stock Exchange
Forty Year 9% Debentures, due October 1, 2018	New York Stock Exchange

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PART I

UNLESS OTHERWISE INDICATED, ALL INFORMATION IS AS OF MARCH 23, 1992.

Item 1. Business

THE COMPANY

The Chesapeake and Potomac Telephone Company of Maryland (the Company) is incorporated under the laws of the State of Maryland and has its principal offices at 1 East Pratt Street, Baltimore, Maryland 21202 (telephone number 301-539-9900). The Company is a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic).

The Company presently serves a territory consisting of two complete and parts of two other Local Access and Transport Areas (LATAs). These LATAs are generally centered on a city or other identifiable community of interest, and each LATA marks the boundary within which the Company may provide telephone service.

The Company provides two basic types of telecommunications services. First, the Company transports telecommunications traffic between subscribers located within the same LATA (intraLATA service), including both local and toll services. Second, the Company provides exchange access service, which links a subscriber's telephone or other equipment to the transmission facilities of interexchange carriers which, in turn, provide telecommunications service between LATAs (interLATA service). The Company also provides exchange access service to interexchange carriers which provide intrastate intraLATA long distance telecommunications service (see "Competition - IntraLATA Competition"). (See "Line of Business Restrictions.")

OPERATIONS

The Company's lines of business comprise local service, network access, toll service, and directory, billing and other services. Local service includes the provision of local exchange ("dial tone"), local private line, and public telephone services including service for both Bell Atlantic-owned and customer-provided coin telephones. Among other services provided in this category are Centrex (central office-based switched telephone service enabling the subscriber to make both intercom and outside calls) and a variety of special and custom calling services. Network access is the provision to interexchange carriers and local exchange carriers of access to the local exchange network for switched transmission, and provision to subscribers (including end-users) of dedicated private lines for voice and data transmissions. Toll service includes message toll service (MTS) (calling service beyond the local calling area) within LATA boundaries, and intraLATA Wide Area Toll Service (WATS)/800 services (volume discount offerings for customers with highly concentrated demand). Directory, billing and other services includes directory publishing (both Yellow Pages and White Pages), billing services for interexchange and other carriers and information service providers, and customer premises services such as inside wire installation and maintenance. The Company also provides various operator services.

The Company provides billing and collection services, including recording, rating, bill processing and bill rendering, for interexchange carriers. The largest purchaser of billing and collection services is American Telephone and Telegraph Company (AT&T). During the last several years, however, AT&T ceased its purchase of interstate WATS and private line billing and of billing inquiry services from the Company, as well as its purchase of MTS billing for a small percentage of its total customer base. By October 1991, AT&T had also ceased its purchase of rating and most recording services from the Company. The Company has also entered into arrangements to provide billing services for MCI Communications Corporation, US Sprint Communications Company and certain other carriers.

The Company has been making and expects to continue to make significant construction expenditures to meet the demand for communications services and to further improve such services. The total investment in plant, property and equipment increased from $4,610.3 million at December 31, 1989, to $4,871.0 million at December 31, 1990, and to $5,038.6 million at December 31, 1991, in each case after giving effect to retirements, but before deducting accumulated depreciation at such date. Construction expenditures of the Company were $405.6 million in 1990 and $398.3 million in 1991 (see Item 2 - "Properties" for an analysis by component of such expenditures).

The Company is projecting construction expenditures of approximately $375 million for 1992. Substantially all of these funds are expected to be generated internally. Some external financing may be necessary or desirable.

LINE OF BUSINESS RESTRICTIONS

Prior to January 1, 1984, the Company was an associated company of the Bell System and was a wholly-owned subsidiary of AT&T. Pursuant to a court-approved divestiture (Divestiture), AT&T transferred those assets of the Bell System operating companies (BOCs), including the Company, that related to exchange telecommunications, exchange access functions and printed directory advertising to seven newly formed regional holding companies (RHCs), including Bell Atlantic.

The consent decree (Consent Decree) and the plan of reorganization (Plan), which set forth the terms of Divestiture, contained certain provisions relating to the post-Divestiture activities of the RHCs. The Consent Decree's principal restrictions on post-Divestiture activities of the RHCs included prohibitions on providing interexchange telecommunications or information services, engaging in the manufacture of telecommunications equipment and customer premises equipment (CPE)*, or entering into any non-telecommunications businesses without Court approval. The United States District Court for the District of Columbia (Court) has retained jurisdiction over the construction, modification, implementation and enforcement of the Consent Decree.

* Customer premises equipment includes telephone sets and private branch exchanges (PBXs) used by a customer on the customer's premises to originate, route or receive telecommunications.

On September 10, 1987, the Court issued an opinion eliminating the prohibition on entering into any non-telecommunications business. However, the Court refused to eliminate the restrictions relating to manufacturing or providing interexchange services. With respect to information services, the Court issued an opinion on March 7, 1988 which permitted the RHCs to engage in a number of information transport functions as well as voice storage and retrieval services, including voice messaging and electronic mail offerings and certain information gateway services. The RHCs were generally prohibited, however, from providing the content of the data they transmit. As the result of an appeal by Bell Atlantic, the other RHCs and other parties of the Court's September 10, 1987 decision, the Court of Appeals ordered the Court to reconsider the RHC's request to provide information content under a standard more favorable to the RHCs. On July 25, 1991, the Court granted that request, but imposed a stay pending appeal of that decision. On October 7, 1991, the Court of Appeals vacated the stay, permitting the RHCs to provide information services.

FCC REGULATION AND INTERSTATE RATES

The Company is subject to the jurisdiction of the Federal Communications Commission (FCC) with respect to interstate services and certain related matters. The FCC prescribes a uniform system of accounts for telephone companies, interstate depreciation rates and the principles and standard procedures used to separate plant investment, expenses, taxes and reserves between those applicable to interstate services under the jurisdiction of the FCC and those applicable to intrastate services under the jurisdiction of the respective state regulatory authorities (separations procedures). The FCC also prescribes procedures for allocating costs and revenues between regulated and unregulated activities.

Interstate Access Charges

The Company provides intraLATA service but does not participate in the provision of interLATA service except through offerings of exchange access service. The FCC has prescribed structures for exchange access tariffs to specify the charges (Access Charges) for use of the Company's facilities used or available for the origination and termination of interstate interLATA service. These charges are intended to recover the related costs of the Company which have been allocated to the interstate jurisdiction (Interstate Costs) under the FCC's separations procedures.

In general, the tariff structures prescribed by the FCC provide that Interstate Costs of the Company which do not vary based on usage (non-traffic sensitive costs) are recovered from subscribers through flat monthly charges (Subscriber Line Charges), and from interexchange carriers through usage-sensitive Carrier Common Line (CCL) charges (see "FCC Access Charge Pooling Arrangements"). Traffic-sensitive Interstate Costs are recovered from carriers through variable access charges based on several factors, primarily usage.

In May 1984, the FCC authorized the implementation of Access Charge tariffs for "switched access service" (access to the local exchange network) and of Subscriber Line Charges for multiple-line business customers (up to $6.00 per month per line). In June 1985, the FCC authorized Subscriber Line Charges for residential and single-line business customers at the rate of $1.00 per month per line, which increased to $2.00 effective June 1, 1986, to $2.60 effective July 1, 1987, to $3.20 effective December 1, 1988 and to $3.50 on April 1, 1989.

As a result of the phasing in of Subscriber Line Charges, a substantial portion of non-traffic sensitive Interstate Costs is now recovered directly from subscribers, thereby reducing the per-minute CCL charges to interexchange carriers. The significant reduction in CCL charges has tended to reduce the incentive to interexchange carriers and their high-volume customers to bypass the Company's switched network via special access lines or alternative communications systems. (See Competition - Bypass.")

FCC Access Charge Pooling Arrangements

The FCC previously required that all local exchange carriers (LECs), including the Company, pool revenues from CCL and Subscriber Line Charges which cover Interstate Costs associated with lines from subscribers' premises to telephone company central offices, i.e., the non-traffic sensitive costs of the local exchange network. To administer such pooling arrangements, the FCC mandated the formation of the National Exchange Carrier Association, Inc. (NECA).

Some LECs received more revenue from the pool than they billed their interexchange carrier customers using the nationwide average CCL rate. Other companies, including the Company, received substantially less from the pool than the amount billed to their interexchange carrier customers.

By an Order adopted in 1987, the FCC changed its mandatory pooling requirements. These changes, which were effective April 1, 1989, permitted the Company to withdraw from the pool and to charge CCL rates which more closely reflect their non-traffic sensitive costs. The Company is still obligated to make contributions of CCL revenues to companies who choose to continue to pool non-traffic sensitive costs so that the pooling companies can charge a CCL rate no greater than the nationwide average CCL rate. In addition to this continuing obligation, the Company has a transitional support obligation to high cost companies who left the pool in 1989 and 1990. This transitional support obligation phases out over five years. These long-term and transitional support requirements will be recovered in the Company's CCL rates.

Depreciation

Depreciation rates provide for the recovery of the Company's investment in telephone plant, and are revised periodically to reflect more current estimates of remaining service lives and future net salvage. In January 1988, the FCC issued an Order requiring LECs such as the Company to amortize certain interstate depreciation reserve deficiencies over a five-year period, retroactive to January 1, 1987. In August 1991, the FCC ordered the LECs to amortize the remaining deficiencies over the period July 1, 1991 to June 30, 1992.

On January 22, 1992, regulators agreed to revised depreciation rates which are expected to increase the Company's annual depreciation expense by $38,800,000, effective January 1, 1992.